

Message Text

CONFIDENTIAL

PAGE 01 STATE 195834
ORIGIN SS-25

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DRAFTED BY IBRD:EFRIED:CMR
APPROVED BY E;RNCOOPER
TREAS:AMSOLOMON
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TREAS:WMBLUMENTHAL
S/S-O:JETHYDEN
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FM SECSTATE WASHDC
TO AMEMBASSY BONN PRIORITY
AMEMBASSY LONDON PRIORITY
AMEMBASSY PARIS PRIORITY
AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L STATE 195834

EXDIS, ALSO FOR TREASURY ATTACHES

E.O. 11652:GDS

TAGS:EAID, EFIN

SUBJECT:IFI COMPENSATION

1. EMBASSIES REQUESTED FORWARD TO HOST GOVERNMENT MINISTER
OF FINANCE LETTER FROM TREASURY SECRETARY BLUMENTHAL
CONTAINED IN PARAGRAPH 2 BELOW.
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 195834

2. BEGIN CONFIDENTIAL LETTER TO HOST MINISTER OF FINANCE
QUOTE.

DEAR MR. MINISTER:

1. THE PRESIDENT AND I ARE DEEPLY CONCERNED THAT OFFICIALS
AND THE STAFF OF THE INTERNATIONAL FINANCIAL INSTITUTIONS,

AND INDEED OF ALL INTERNATIONAL ORGANIZATIONS, ARE OPERATING UNDER A COMPENSATION SYSTEM THAT HAS ITS ORIGINS IN THE PAST AND IS NO LONGER STRUCTURED TO PROVIDE EFFECTIVE INCENTIVES TO ACHIEVE AGREED GOALS AT LOWEST COST. THE IMPLICATIONS GO FAR BEYOND THE NARROW QUESTION OF WHETHER THE INDIVIDUALS CONCERNED ARE BEING OVERPAID. THERE IS FIRST THE ISSUE OF WHETHER PUBLIC FUNDS ARE BEING MISUSED IN THE SENSE THAT PAY AND BENEFITS ARE MUCH HIGHER THAN NECESSARY TO RECRUIT

QUALIFIED PERSONNEL. SECOND, I AM CONVINCED THAT THE WIDESPREAD BELIEF IN THE UNITED STATES THAT THESE SALARIES ARE INFLATED IS ONE OF THE REASONS WE ARE HAVING SO MUCH DIFFICULTY THIS YEAR IN OBTAINING APPROPRIATIONS FOR THE WORLD BANK, IDA, AND THE REGIONAL DEVELOPMENT BANKS.

2. AS I SEE THE SITUATION, THIS BELIEF WILL HAVE TO BE DISPROVEN OR, IF IT CANNOT BE, THE SALARY STRUCTURE IN THESE ORGANIZATIONS WILL HAVE TO BE COMPLETELY OVERHAULED. OTHERWISE, I FEAR THAT NEXT YEAR'S U.S. APPROPRIATIONS FOR THESE ORGANIZATIONS WILL BE CUT HEAVILY, AND THAT LEGISLATIVE SUPPORT FOR THE IMF WILL BE WEAKENED. I BELIEVE IT WOULD BE GRIEVOUSLY REMISS TO JEOPARDIZE THE OPERATIONS OF THESE IMPORTANT INSTITUTIONS BY FAILING TO ADDRESS THIS ISSUE.

CONFIDENTIAL

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PAGE 03 STATE 195834

3. WHAT IS NEEDED AT THIS POINT IS A FRESH, INDEPENDENT, EXPERT AND BUSINESSLIKE ANALYSIS OF THIS COMPLEX SUBJECT. I BELIEVE WE WOULD GET THIS FROM A TOP-FLIGHT COMPENSATION FIRM IF WE ASK THE RIGHT QUESTIONS. SPECIFICALLY, I WOULD ASK SUCH A FIRM, IN EFFECT, TO ADVISE US OF WHAT KIND OF COMPENSATION PRINCIPLES AND STRUCTURES WE WOULD NEED FOR THE BANK AND THE FUND IF WE WERE BRINGING THESE ORGANIZATIONS INTO BEING TODAY, AND HAVING IN MIND THE BREADTH OF THEIR RESPONSIBILITIES AND THE QUALITY OF THEIR WORK. TAKING INTO ACCOUNT THE NEED TO OBTAIN A HIGH LEVEL OF COMPETENCE, WHAT WOULD WE HAVE TO PAY TO ATTRACT PEOPLE WITH THE PARTICULAR SKILLS REQUIRED AND IN WHAT FORM SHOULD SUCH PAYMENT BE MADE TO OBTAIN SUCH PEOPLE AT THE LOWEST COST. WE WOULD ASK THE FIRM TO ASSUME FOR THESE PURPOSES THAT THE SAME COMPENSATION PRINCIPLES WOULD APPLY TO OTHER INTERNATIONAL ORGANIZATIONS; IN OTHER WORDS WE WOULD NOT WANT EXISTING COMPENSATION IN OTHER INTERNATIONAL ORGANIZATIONS TO BE USED AS A STANDARD OF COMPARISON, FOR THAT WOULD MAKE THE WHOLE PROCESS CIRCULAR. WE WOULD WANT ADVICE ON NON-PROFESSIONAL AS WELL AS PROFESSIONAL STAFF, AND ON A BASIS THAT WOULD DIFFERENTIATE THE MARKET FOR THE SUPPLY OF THE VARIOUS SKILLS INVOLVED. IN THIS KIND OF ANALYSIS NONE OF OUR EXISTING PRACTICES

SHOULD BE TAKEN FOR GRANTED; NOR SHOULD ANY CONSIDERATION BE GIVEN TO THE ADJUSTMENT PROBLEMS OF MOVING FROM THE PRESENT TO SOME OTHER SYSTEM. THESE ARE PROBLEMS WE WOULD ADDRESS SUBSEQUENTLY, ONCE WE HAVE A CLEAR UNDERSTANDING OF WHERE WE WANT TO GO AND WHAT WOULD CONSTITUTE AN OPTIMUM COMPENSATION SYSTEM.

4. I WOULD WANT TO SET A DEADLINE OF THREE (3) MONTHS FOR COMPLETION OF SUCH AN ANALYSIS, WITH INTERIM REPORTS BEING SUBMITTED ON SPECIFIC SUBJECTS AS SOON AS THE WORK IS COMPLETED. THIS DEADLINE AND PROCEDURE WOULD BE FEASIBLE BECAUSE MOST OF THE UNDERLYING DATA HAVE ALREADY BEEN COLLECTED BY THE BANK AND FUND. I AM SURE THESE
CONFIDENTIAL

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PAGE 04 STATE 195834

ORGANIZATIONS WOULD COOPERATE FULLY BOTH IN SUPPLYING INFORMATION AND, IF IT WERE NEEDED, IN PROVIDING SPACE SO AS TO GIVE THE FIRM A RUNNING START.

5. THIS PRIVATE ANALYSIS -- BOTH THE INTERIM RESULTS AND FINAL CONCLUSIONS -- WOULD BE FED INTO THE DELIBERATIONS OF THE JOINT BANK/FUND COMMITTEE ON STAFF COMPENSATION THAT HAS JUST BEGUN ITS DISCUSSIONS AND IS TO SUBMIT ITS RECOMMENDATIONS EARLY NEXT YEAR.

6. MY HOPE IS THAT SUCH A STUDY WOULD BE COMMISSIONED JOINTLY BY FRANCE, GERMANY, JAPAN, THE UNITED KINGDOM AND THE UNITED STATES, AS THE FIVE (5) COUNTRIES WITH APPOINTED DIRECTORS. COMMISSIONING SUCH A STUDY WOULD NOT PRESUME AGREEMENT ON THE PART OF THE FIVE OR ANYONE ELSE TO ACT ON THE ADVICE. RATHER, THE ANALYSIS SHOULD REPRESENT A CONTRIBUTION ON THE PART OF THE SPONSORS OF THE STUDY TO HELP EACH GOVERNMENT COME TO ITS OWN CONCLUSIONS.

7. THE FIRMS I WOULD CONSIDER HERE ARE: TOWERS, PERRIN, FORSTER & CROSBY; HAY ASSOCIATES; AND HEWITT ASSOCIATES, ALL OF WHOM HAVE INTERNATIONAL OPERATIONS AND SOME FAMILIARITY WITH THE WORK AND PERSONNEL PROCEDURES OF THE BANK AND FUND. IF YOU WISH TO SUGGEST ANY OTHER FIRM WITH SIMILARLY BROAD CAPABILITIES, WHICH COULD GET INTO THE WORK FAST AND NOT GET BURIED IN THE DETAILS AND COMPLEXITIES OF INTERNATIONAL ORGANIZATIONS AND INTERNATIONAL COMPARISONS OF COMPENSATION, PLEASE LET ME KNOW.

8. EVENTUALLY THE U.S. PROPOSES TO TAKE MUCH THE SAME APPROACH IN ASKING FOR A FRESH LOOK AT COMPENSATION IN OTHER INTERNATIONAL ORGANIZATIONS. OUR EXPERIENCE IN THIS EXERCISE SHOULD SERVE US WELL IN SUBSEQUENT EXAMINA-
CONFIDENTIAL

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TION OF THE REMUNERATION PRACTICES OF OTHER INTERNATIONAL ORGANIZATIONS, SINCE WE BELIEVE THAT THEY TOO WILL COME UNDER ATTACK ON THE SAME GROUNDS. WE HAVE ONLY TO REMIND OURSELVES THAT MANY OF THESE ORGANIZATIONS WERE ESTABLISHED MORE THAN THREE DECADES AGO UNDER VERY DIFFERENT CIRCUMSTANCES; SINCE THEN THE NUMBER OF PERSONNEL HAS GROWN SHARPLY WHILE COMPENSATION HAS BEEN ADJUSTED MECHANICALLY. A THOROUGH REVIEW OF COMPENSATION PRINCIPLES, OF THE DECISION-MAKING PROCESS AND OF EXISTING LEVEL OF COMPENSATION IS LONG OVERDUE.

9. COULD YOU GIVE ME YOUR REACTION AS SOON AS POSSIBLE? IT WOULD HELP US A GREAT DEAL HERE IF WE COULD START AN EXAMINATION OF BANK/FUND COMPENSATION PRINCIPLES AND AN

APPRAISAL OF THE LEVEL OF COMPENSATION ALONG THE LINES I HAVE OUTLINED WITHIN SAY THE NEXT TWO WEEKS. IF SO, I WOULD LOOK TO NEXT YEAR'S APPROPRIATION PROCESS WITH GREATER OPTIMISM THAN I NOW HAVE.

WITH BEST REGARDS,

SINCERELY,

W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY
END QUOTE. VANCE

CONFIDENTIAL

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PAGE 01 STATE 195834
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INFO OCT-01 ISO-00 SSO-00 /016 R

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DRAFTED BY: EUR/RPM:EREHFELD

APPROVED BY: EUR:JSHINN

S/S-O:TGMARTIN

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TO USMISSION NATO

C O N F I D E N T I A L STATE 195834

EXDIS

FOLLOWING TEL SENT ACTION BONN, LONDON, PARIS, TOKYO FROM
STATE AUG 17:

QUOTE C O N F I D E N T I A L STATE 195834

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CONFIDENTIAL

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Message Attributes

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Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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Review Withdrawn Fields: n/a
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Secure: OPEN
Status: NATIVE
Subject: IFI COMPENSATION
TAGS: EAID, EFIN, (BLUMENTHAL, W MICHAEL)
To: BONN LONDON MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ca116b59-c288-dd11-92da-001cc4696bcc
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Margaret P. Grafeld
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